

**LEGISLATIVE SERVICES AGENCY  
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**FISCAL IMPACT STATEMENT**

**LS 7528**

**BILL NUMBER:** HB 1190

**NOTE PREPARED:** Jan 5, 2007

**BILL AMENDED:**

**SUBJECT:** Inheritance Tax.

**FIRST AUTHOR:** Rep. Murphy

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** ☒ **GENERAL**  
☒ **DEDICATED**  
☐ **FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** The bill provides a total exemption from the Inheritance Tax for property transferred to lineal descendants and ancestors (Class A transferees) with respect to persons who die after June 30, 2007.

**Effective Date:** July 1, 2007.

**Summary of Net State Impact:** Under the bill, Indiana Inheritance Tax revenues will decrease beginning in FY 2009. The bill is expected to increase state General Fund expenditures on county Inheritance Tax replacement. The net state impact of the bill is summarized in the table below.

State Fiscal Year	Inheritance Tax Revenues	Add'l. County Replacement Expenditures	Net Increase (Decrease)
2009	(\$62.6 M)	\$0	(\$62.6 M)
2010 and after	(62.6 M)	(1.3 M)	(63.9 M)

**Explanation of State Expenditures:** *County Inheritance Tax Replacement:* The bill could potentially increase expenditures from the state General Fund for county Inheritance Tax replacement beginning in FY 2010 by approximately \$1.3 M. (Note: Replacement payments are made in the fiscal year following the fiscal year in which counties experience revenue shortages.) Necessary replacement funding may vary depending on whether, and by how much, each county's base revenue differs from the amount guaranteed under current statute. (See *Explanation of Local Revenues*, below, for an explanation of county revenue loss and

replacement procedures.)

**Explanation of State Revenues:** *Summary:* The bill could potentially reduce Inheritance Tax revenue by approximately \$62.6 M annually beginning in FY 2009.

*Background:* Under the bill, transfers to Class A beneficiaries would be exempt from the Inheritance Tax. The change would apply to transfers from persons who die after June 30, 2007. Since the Inheritance Tax must be paid within 12 months after the decedent's death (within 9 months to receive the 5% early payment discount), the bulk of the impact from the first year's exemption would not be experienced until FY 2009.

The estimated fiscal impact of this change is based on the Office of Fiscal and Management Analysis (OFMA) Inheritance Tax database and the Revenue Technical Committee's FY 2009 forecast (published December 14, 2006). The forecast estimates FY 2009 Inheritance Tax at \$140.0 M. The estimated revenue loss assumes that Inheritance Tax revenues would remain relatively constant after FY 2009 absent the increased exemption. The Inheritance Tax database is comprised of about 336,000 records of transferees receiving assets from a decedent who died between July 1, 1997, and December 31, 2005. Annual sample totals suggest that Class A beneficiaries account for about 44.7% of annual Inheritance Tax revenue (about \$62.6 M of the forecast amount). About 99.1% of total Inheritance Tax collections are from Indiana residents. Since counties retain 8% of resident Inheritance Tax, annual county collections from Class A beneficiaries are estimated to total about \$5.4 M.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** *Summary:* The bill totally exempts Class A transferees from the Inheritance Tax. The potential net impact to counties due to this change is summarized in the table below.

State Fiscal Year	Inheritance Tax Revenues	Add'l. County Replacement Payments	Net Increase (Decrease)
2009	(\$5.4 M)	\$0	(\$5.4 M)
2010 and after	(5.4 M)	1.3 M	(4.1 M)

*Background:* Counties retain 8% of the Inheritance Tax collected on transfers made by Indiana residents, and are guaranteed a statutorily determined amount from the Inheritance Tax under the replacement provision established by P.L. 254-1997. This legislation increased the Class A exemption to \$100,000 effective July 1, 1997, and required the state to annually transfer money from the state General Fund to counties to replace county Inheritance Tax revenue lost due to the exemption increase. The replacement provision guarantees that each county receive an amount of Inheritance Tax revenue equal to the five-year annual average amount of Inheritance Tax received by that county from FY 1991 to FY 1997, excluding the highest year and lowest year from the computation. The total annual guarantee to counties is approximately \$7.4 M, with replacement payments averaging about \$208,000 since FY 2000. (Note: Since replacement payments are made in the fiscal year following the fiscal year in which counties experience revenue shortages, county inheritance tax reductions under the bill would begin in FY 2009 with resulting replacement payments beginning in FY 2010.)

A copy of the spreadsheet showing the amount of Inheritance Tax replacement guaranteed to each county under P.L. 254-1997 is available from the Office of Fiscal and Management Analysis.

**State Agencies Affected:** Department of State Revenue.

**Local Agencies Affected:** Counties.

**Information Sources:** State Revenue Forecast (December 14, 2006); Department of State Revenue, Inheritance Tax Annual and Quarterly Reports; OFMA Inheritance Tax database.

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